

**Alabama Trust Fund
Board of Trustees Meeting
February 20, 2014
State Capitol, N-202**

Pursuant to public notice, a meeting of the Alabama Trust Fund Board of Trustees was held on February 20, 2014. The meeting was called to order at 10:00 AM by Vice Chair Newton. The roll was called by Secretary Boozer and recorded as follows with a quorum present.

Present:

Mr. Bill Newton, Vice Chair
Mr. Young Boozer, Secretary
Mr. Rich Bielen
Mr. Terry Bunn
Dr. Sandra Sims-deGraffenried
Mr. Guice Slawson, Jr
Mr. Sam Upchurch

Absent:

Governor Robert Bentley, Chair
Mr. Daniel Hughes

The first order of business was review and approval of the minutes of November 21, 2013. Upon motion made by Dr. Sims-deGraffenried, and a second by Mr. Upchurch, the reading of the minutes was dispensed and the minutes were unanimously approved as presented.

Mr. Boozer reviewed the quarterly financial reports. He noted assets of \$2.8 billion include the ETF rainy day repayment of \$260 million. Expenditures included \$28.9 million in oil and gas capital payments to the Alabama Capital Improvement Fund and County and Municipal Government Capital Improvement Trust Fund as well as \$66.5 million representing the first quarter of the annual distributions from the ATF. Other reports were reviewed. Upon motion by Dr. Sims-deGraffenried, and second by Mr. Slawson, the reports were received by unanimous consent.

Ms. West presented the quarterly investment performance measurement report and market overview. She noted market volatility since the end of the calendar year but returns were strong. Within non-US equity markets, the emerging markets struggled and lagged the developed markets. In comparing the actual ATF asset allocation to the target asset allocation, Ms. West noted a slight underweight to fixed income. The quarterly total fund return of 5.03% is slightly higher than the target return of 4.58% mostly due to the manager effect. The one year total fund return of 13.57% is also higher than the target of 11.50% due to asset allocation changes during the year as well as the managers adding 1.02% in value. Total fund performance relative to that of the endowment/foundation database is positive for all time periods. Ms. West also noted that over the longer term periods, the ATF had a higher fixed income allocation than the majority of public funds and endowments/foundations. Invested assets as of December 31, 2013 of \$2.6 billion includes \$117.7 million in investment returns and \$181.5 million in net repayment of the ETF.

Ms. West reviewed the quarterly returns, noting all equity managers had positive returns. CS McKee continues to lag the benchmark in the short term. Thornburg and Wells Fargo struggled for the quarter and year. INTECH had a strong performance beating the benchmark by 80 basis points. In reviewing the fixed income managers, Ms. West noted that Sterne Agee has struggled the last quarter and year. She suggested that Sterne visit at the next available meeting. Angelo Gordon continues to invest, and Heitman had a good quarter. Overall, the portfolio achieved a net 4.96% return against the total fund target of 4.58%. The January flash report was reviewed. Volatility in January resulted in the fixed income market outperforming equities. Sterne Agee had a good month with a 1.58% return. The total fund return for the month was (2.00%).

Ms. West presented Watch List recommendations. CS McKee continues to lag its benchmark and peers, and Sterne Agee's performance for the past three years has been below the median. Thornburg's performance has also waned, and Thornburg is undergoing management changes. Ms. West reviewed the Thornburg announcement included in the board materials. She also reviewed the detail of each manager's performance. Ms. West recommended that the regular RFP process be started for international equity. It is expected that the Investment Committee will have a recommendation for the board's consideration at the next meeting. Upon motion by Mr. Boozer, and a second by Dr. Sims-deGraffenried, the watch list recommendations and initiation of the RFP process was unanimously approved.

Under decision items, Ms. West presented an overview of global equity for the board's consideration to include in its asset allocation. She provided comparisons of a global equity portfolio to US and non-US portfolios, noting the average upside for a global equity portfolio is 95%. Pros and cons were discussed as presented in the board materials. Mr. Bielen noted that this allocation allows a manager some discretion. Upon motion made by Mr. Bielen and a second by Mr. Upchurch, the board unanimously approved issuing a Request for Proposal for a global equity manager.

As follow-up to a presentation by Pyramis at the last meeting, Ms. West provided additional information on a tactical bond strategy. She recapped the current fixed income environment, issues facing fixed income managers, and fixed income alternatives. She presented strategy highlights from the Pyramis presentation and historical performance. It was noted that while this strategy is less sensitive to interest rate risk, it is more sensitive to credit risk. Mr. Boozer mentioned that the core plus strategies provide some exposure to this type strategy. Mr. Bielen agreed and suggested the Board not allocate assets to this strategy at this time. The Board concurred.

The next order of business was to consider changes to the guidelines as requested by American Century. The changes included (1) adjust the EM limit to the weight of EM in the MSCI ACWI ex-US Small Cap Growth Index; (2) allow participation in IPOs in order to acquire Rule 144a securities; and (3) base the sector limitations on the MSCI ACWI ex-US Small Cap Growth Index instead of the MSCI EAFE Index. Ms. West recommended the changes. Upon motion made by Mr. Upchurch, and a second by Mr. Bielen, the changes were unanimously approved.

As an informational item, the Board again discussed the Constitutional Amendment proposed by Act 2013-266 and its effect on the ATF. Vice Chair Newton stated that the Board should consider if it takes formal action. Dr. Sims-deGraffenried stated that it is the Board's fiscal responsibility to address the amendment. Mr. Boozer noted that the ATF has been restructured for a total return and that an additional distribution as proposed in the amendment negatively affects the recipients of the ATF. Mr. Newton expressed concern that if this amendment passes, additional demands for other distributions will be made on the ATF. Further discussion will be held at its next meeting.

HB 126 was provided as informational to the Board. It was noted that the bill had not been presented at committee. The Treasurer will keep the board advised of any action.

Ms. West reviewed a memorandum included in the board materials regarding sanctions by the SEC and US Department of Labor against Western Asset Management. She reviewed the errors made by Western, and stated the concern that no notification was provided to clients. Controls have been strengthened. She noted that there is no impact to the ATF. Mr. Bielen asked for follow-up regarding the matter such as personnel changes or if the customers were made whole.

The next order of business was to review the investment performance of the County & Municipal Government Capital Improvement Trust Fund ("CMT"). Real estate allocation is still not funded due to no agreement having been finalized. This allocation is split between fixed income and equity. Market value as of December 31 was \$463 million which included an increase of \$22 million over prior quarter due to investment return, and \$5.5 million in new investment. The quarterly net fund return of 5.0% was higher than the target of 4.62%. The January flash report was also reviewed. Ms. West noted that the equity allocation was added at an opportune time that has improved performance. Upon motion by Dr. Sims-deGraffenried, and second by Mr. Boozer, the quarterly performance reports were received by unanimous consent.

There being no further business, the meeting was adjourned at approximately 11:35 AM.

Bill Newton, Vice-Chair

Young Boozer, Secretary